

T E N N E S S E E V A L L E Y A U T H O R I T Y

A N N U A L R E P O R T

P R O V I D I N G

P O W E R

I N T H E P U B L I C I N T E R E S T



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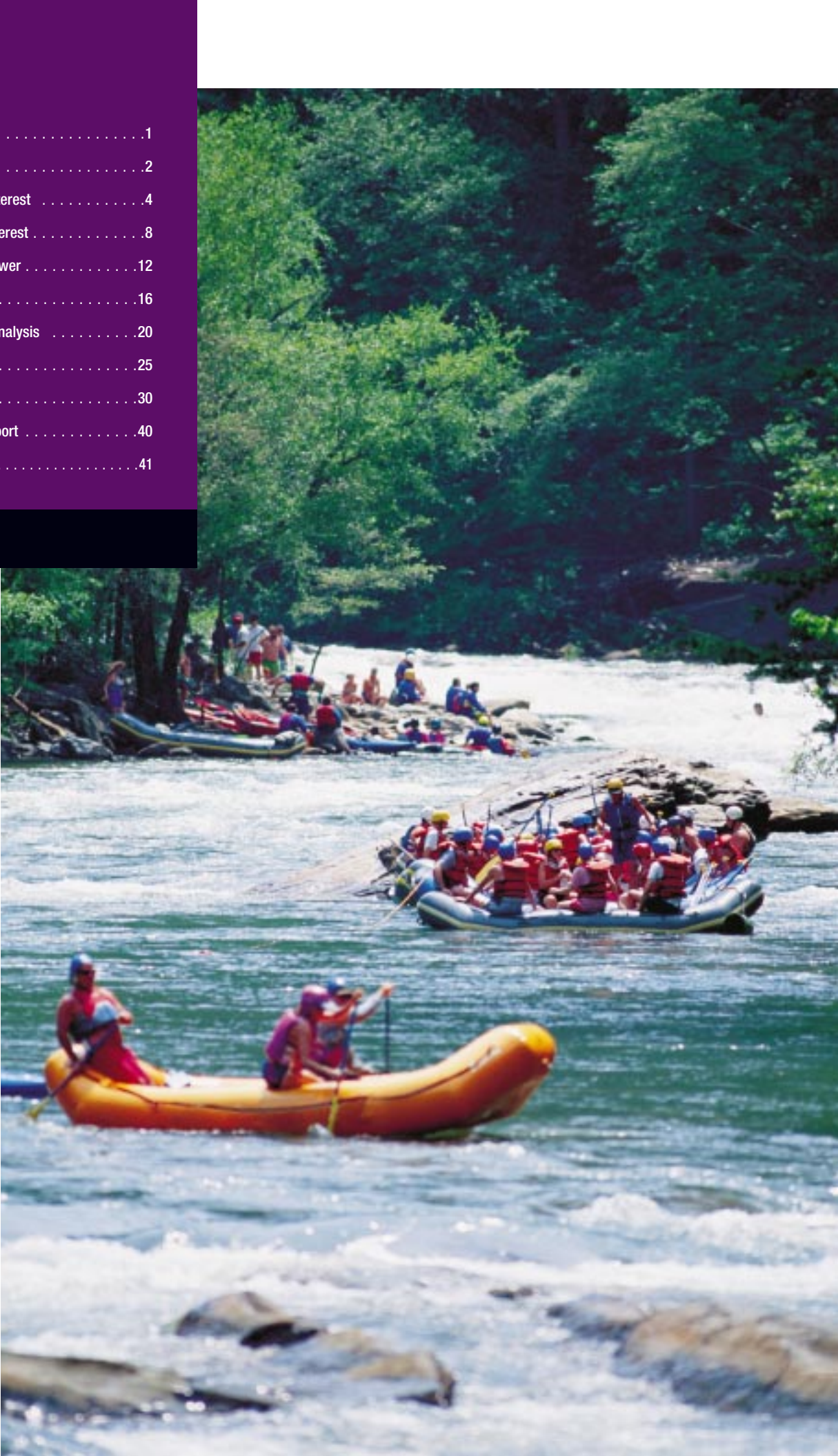
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FINANCIAL HIGHLIGHTS—POWER PROGRAM

For the years ended September 30 (millions of dollars)

	1997	1996	Percent Change
Operating revenues	\$ 5,552	\$ 5,693	(2)%
Operating expenses	(3,698)	(3,656)	1%
Operating income	1,854	2,037	(9)%
Other income (expense), net	157	(10)	—
Interest expense	(2,003)	(1,966)	2%
Net income	\$ 8	\$ 61	(87)%
Total assets	\$33,684	\$34,029	(1)%
Capitalization			
Long-term debt	\$24,726	\$25,570	(3)%
Proprietary capital	3,975	4,028	(1)%
Total capitalization	\$28,701	\$29,598	(3)%

POWER SYSTEM STATISTICS

For the years ended September 30 (millions of kilowatt-hours)

	1997	1996	Percent Change
System input			
System generation			
Hydro, including pumped storage	17,232	16,107	7%
Fossil	93,417	97,046	(4)%
Nuclear	42,008	35,426	19%
Combustion turbine	339	217	56%
Total net generation	152,996	148,796	3%
Purchased	5,393	4,929	9%
Net interchange and wheeling	(13,130)	(7,851)	67%
Total system input	145,259	145,874	—
System output			
Sales			
Municipalities and cooperatives	114,771	117,035	(2)%
Industries directly served	17,359	16,599	5%
Federal agencies	7,567	6,966	9%
Total sales	139,697	140,600	(1)%
Other	2,029	1,668	22%
Losses	3,533	3,606	(2)%
Total system output	145,259	145,874	—
Net winter dependable capacity (megawatts)	28,417	28,123	1%
Percent of average gross generation to net winter dependable capacity	68.23	64.39	6%
System peak load (megawatts)—summer	26,661	25,376	5%
System peak load (megawatts)—winter	26,670	24,995	7%
Annual load factor	62.20	63.89	(3)%
Percent net winter dependable capacity by fuel source			
Fossil	53%	53%	—
Nuclear	20%	20%	—
Hydro	19%	19%	—
Combustion turbine	8%	8%	—



Directors Johnny Hayes and Bill Kennoy, Chairman Craven Crowell

LETTER TO STAKEHOLDERS

Early in the next century, the restructuring of the electric power industry can bring dramatic changes to the way utilities across the nation do business. TVA's success in the new era will be built on a solid foundation of our commitment to the public interest, customer service, financial strength and operational excellence. This annual report describes TVA's performance in these key areas during fiscal year 1997 and outlines our strategies for the years to come.

The Tennessee Valley Authority is more than a power company. TVA power enriches lives, promotes economic growth and improves the overall quality of life in the Valley. We provide reliable, universal access to electricity at competitive prices. And we are the stewards of the lands and waters of the Tennessee River Valley. We are not only the nation's largest wholesaler of electricity, but also an innovative and effective resource-management agency and a valuable asset to the people of the Valley and the nation.

TVA is preparing for the challenges of the future and is adapting to changing conditions in our industry and in our role as a federal agency. Four years ago, while TVA was building four nuclear units, its debt was increasing at about \$1 billion a year and there was no strategic plan for the future. At that time, Director Hayes and I joined Director Kennoy on the TVA Board

of Directors, and we embarked on a deliberate, step-by-step plan to put TVA on track for the coming era of competition.

The Board decided to complete one nuclear unit at Watts Bar and stop construction on TVA's three other unfinished nuclear units. This permitted us to decrease our capital expenditures and cap TVA's debt. In fact, this year, for the first time in 35 years, TVA's debt has declined. Our operating nuclear plants are now performing at record levels, well above the national average. TVA's fossil and hydro plants, meanwhile, have increased their productivity by about 20 percent system-wide. Thanks to these remarkable achievements by the men and women of TVA, our power system is running better today than at any time in its 64-year history.

Because of the steps we have taken, we are now positioned to implement our 10-Year Business Plan to ensure that TVA will be competitive in the 21st century. Achievement of this plan, which is the capstone of this Board's efforts to prepare TVA for the restructuring of the electric utility industry, will cut TVA's debt in half by 2007 and make it possible to lower the price of TVA power by 15 percent thereafter. By implementing our 10-Year Business Plan, TVA will gain new strength.

A financially strong and efficient TVA is essential for contin-

uing economic growth and job creation in our region. The steps we are taking will not only benefit the region, but will also enhance TVA's value as a national asset as we work with Congress to define TVA's role in the restructured marketplace.

In that new marketplace, we intend to preserve TVA's historic commitment to the public good—through economic development, reliable service, environmental stewardship and universal access—so TVA will remain an industry leader and a model for the rest of the country. TVA, as a public power entity, is ideally suited to be an advocate for, and to protect, the fundamental public interest in electricity generation, transmission and distribution.

My fellow Board members and I are proud of what TVA's employees have accomplished in 1997 and what they are ready to accomplish in the years to come. We have cut costs while improving productivity. We have streamlined our operational

and corporate support, eliminating about 750 positions this year. Improvements in corporate operations include a savings of 15 percent through continuing efforts to leverage contracts, and substantial savings through the successful implementation of a new payroll system and the re-engineering of key Information Systems operations. In January, TVA met an all-time peak power demand of 26,670 megawatts, by having all of our 59 fossil units, our five nuclear units and 113 hydro units generating power at the same time. TVA will continue to focus on operational excellence in serving our customers, the region and the nation. In addition, TVA continues to be a national model for watershed management and a model for regional development programs around the world.

The U.S. Congress has a leadership role in shaping the utility industry of the future and the role of TVA in that future. Working with Congress and the public and private utilities, TVA can take an active role in developing an equitable, effective framework for success in a restructured market. For our customers and the people of the region and the nation, we are providing power in the public interest.



Craven Crowell
Chairman

CHAIRMAN: Craven Crowell

Crowell was appointed to the Board of Directors by President Bill Clinton and confirmed by the U.S. Senate in 1993. President Clinton named him as TVA's 11th Chairman. Crowell, who has 13 years of service at TVA, is a member of the board of the Electric Power Research Institute and the board of the Nuclear Energy Institute.

DIRECTOR: Johnny H. Hayes

Hayes was appointed to the Board of Directors in 1993 by President Bill Clinton. Before joining the TVA Board, he served two appointments in the cabinet of Tennessee Governor Ned McWherter, including Commissioner of Economic and Community Development. Before entering public service, Hayes was president of Newman, Hayes & Dixon, an independent insurance agency he founded in 1964 in Hendersonville, Tennessee. He is co-chairperson of the Knoxville/TVA Community Relations Council.

DIRECTOR: William H. Kennoy

Kennoy was appointed to the Board of Directors in 1991 by President George Bush. A professional engineer, he was president of Kennoy Engineers, Inc., an environmental engineering firm in Lexington, Kentucky, from 1971-1991. He serves on the Intermodal Advisory Panel of the Kentucky Transportation Cabinet, Clean Coal Technology Tactic Team, and The Partnership for Kentucky School Reform.

GENERAL COUNSEL: Ed Christenbury

General Counsel, advises the Board on legal matters, provides overall policy direction to the Office of the General Counsel, and oversees and coordinates all legal proceedings.

FOSSIL & HYDRO GROUP: Joe Dickey

Chief Operating Officer, has the responsibility for day-to-day production and delivery of electricity to TVA customers. He is also Executive Vice President in charge of the Fossil & Hydro Group, representing 22,792 megawatts of net winter dependable generating capacity.

RESOURCE GROUP: Kate Jackson

Executive Vice President of the Resource Group, is responsible for TVA non-power programs, which include navigation, flood control, the Environmental Research Center, Land Between The Lakes, and the management of the Tennessee River basin.

CUSTOMER SERVICE & MARKETING: Mark Medford

Executive Vice President of TVA's newly created Customer Service & Marketing Group, is responsible for customer account management, energy marketing, technology advancement and economic development.

TRANSMISSION & POWER SUPPLY: Bill Museler

Executive Vice President of TVA's newly created Transmission/Power Supply Group, is responsible for engineering, construction, maintenance, operation, and dispatch for the 17,000-mile TVA transmission system.

FINANCE: David N. Smith

Chief Financial Officer and Executive Vice President of Financial Services, is responsible for the Finance, Controller, and Treasurer organizations, investor relations, and risk management. Through management of TVA's \$30 billion capital structure, he develops fiscal strategies to ensure funding for corporate operations and growth.

TVA NUCLEAR: Ike Zeringue

Named Executive Vice President of TVA Nuclear and Chief Nuclear Officer in October 1997, oversees operation, maintenance and engineering of all nuclear units, representing 5,625 megawatts of net dependable generating capacity in operation. Succeeds Oliver D. Kingsley, Jr.

ADMINISTRATION: Norm Zigrossi

Chief Administrative Officer and Executive Vice President of Business Services, is responsible for all TVA corporate and administrative functions and for ensuring these functions are closely linked to the policies of the Board of Directors. He chairs TVA's Executive Committee.